

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03  
INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03  
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/087 W

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R 052225Z APR 78  
FM AMEMBASSY OTTAWA  
TO SECSTATE WASHDC 6928  
INFO AMCONSUL MONTREAL  
AMCONSUL TORONTO

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E.O. 11652: N/A  
TAGS: EINV, ETRD, EIND, CA  
SUBJECT: RISING ATTENTION GIVEN TO CANADIAN AUTO INDUSTRY  
INVESTMENT

1. SUMMARY. ECONOMIC NATIONALISTS HAVE DISCOVERED LARGE  
MEDIUM-TERM AUTO INDUSTRY INVESTMENT PLANS AND ARE ASSERT-  
ING CANADIAN "RIGHT" TO A SHARE. BOTH ONTARIO AND  
FEDERAL GOVERNMENTS ARE BEGINNING TO GIVE ATTENTION TO  
INFLUENCING TRENDS IN AUTO SECTOR, WITH AS YET UNCLEAR  
IMPLICATIONS FOR OPERATIONS OF U.S. MANUFACTURERS AND  
BILATERAL AUTO PACT. EMBASSY IS TAKING LINE CANADA NEEDS  
TO CONCENTRATE ON PRESENTING COMPETITIVE INVESTMENT  
ENVIRONMENT. END SUMMARY.

2. IN LEAD EDITORIAL APRIL 4, TORONTO STAR, IN TYPICALLY  
STRIDENT NATIONALIST EDITORIAL, CHALLENGED FEDERAL INDUS-  
TRY MINISTER HORNER TO "...CALL IN HEADS OF AUTO INDUSTRY'S  
CANADIAN SUBSIDIARIES TO MAKE CLEAR THAT CANADA HAS TO  
GET ITS SHARE OF MAJOR NEW INVESTMENTS...", SAID BY STAR  
TO BE DOLS 10 BILLION OVER NEXT DECADE. STAR ASSERTED  
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CANADA'S AUTO CONSUMPTION (WHICH IT SAID WAS 8.5 PERCENT  
OF NORTH AMERICAN MARKET), "ENTITLED" IT TO "REASONABLE  
SHARE" OF AUTO AND PARTS PRODUCTION, GREATER PROPORTION  
OF SKILLED JOBS AS WELL AS RESEARCH AND DEVELOPMENT EXPEN-  
DITURE.

3. ACCORDING TO STAR, PRODUCTIVITY IN CANADIAN AUTO

PLANTS IS AS GOOD OR BETTER THAN IN U.S., AND CANADIAN SUBSIDIARIES ARE MORE PROFITABLE THAN THEIR U.S. PARENTS. NEVERTHELESS, U.S. BIG THREE AUTO MAKERS HAVE "SHORT-CHANGED" CANADA WHILE BENEFITING FROM INTEGRATED MARKET UNDER U.S.-CANADA AUTO PACT. TO MAKE MATTERS WORSE, U.S. SOUTHERN STATES' INDUCEMENTS OF "LOW WAGES, EASY LABOR LAWS AND CHEAP LAND" ARE NOW BEING MATCHED BY "GIVEAWAY TAX INCENTIVES" BY NORTHERN STATES. BUT CANADA SHOULD NOT PLAY THIS GAME. RATHER, IT SHOULD MAKE ITS EXPECTATIONS CLEAR, AND, IF THEY ARE NOT MET, "THEN CANADA SHOULD MAKE OTHER ARRANGEMENTS TO DEVELOP ITS OWN INDUSTRY AND GET OUT OF THE AUTO PACT."

4. ALSO ON APRIL 4, CANADIAN PRESS STORY CARRIED IN MONTREAL AND OTTAWA PAPERS REPORTED REMARKS MADE BY GM OF CANADA PRESIDENT DON MCPHERSON FOLLOWING MEETING WITH ONTARIO PREMIER DAVIS ON MEDIUM-TERM AUTO INDUSTRY OUTLOOK. MCPHERSON ASSERTED GM HAD INCREASED ITS CANADIAN WORK FORCE BY 9,000 IN PAST FOUR YEARS AND THAT REVISION OF AUTO PACT WOULD BE "SERIOUS MISTAKE". MCPHERSON ALSO SOUGHT TO PUT DOLS 2 BILLION CANADIAN DEFICIT ON AUTO PARTS TRADE (ANOTHER FAVORITE ECONOMIC NATIONALIST THEME) INTO PERSPECTIVE. CP JUXTAPOSED MCPHERSON REMARKS WITH ONTARIO FEDERATION OF LABOR ESTIMATE, MADE LAST NOVEMBER, THAT 27,000 ADDITIONAL JOBS COULD RESULT FOR CANADA FROM INCORPORATING PROPER SAFEGUARDS INTO AUTO PACT. LIMITED OFFICIAL USE

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5. COMMENT. OPERATION OF AUTO PACT AND MASSIVE INVESTMENT IN NEW PRODUCTION FACILITIES REQUIRED BY CONVERSION TO MORE FUEL EFFICIENT CARS ARE RECEIVING INCREASING ATTENTION IN BOTH TORONTO AND OTTAWA. ONTARIO'S DAVIS IS HOLDING SERIES OF MEETINGS WITH AUTO EXECUTIVES TO DISCUSS FUTURE INVESTMENT. HOWEVER, PROVINCE, SO FAR, IS OFFERING NO SPECIAL INVESTMENT INCENTIVES. QUEBEC, ON OTHER HAND, HAS ACTIVE INVESTMENT INCENTIVE PROGRAM -- WHICH IS FACTOR IN CONSIDERATION GM IS GIVING TO PLACING LARGE ALUMINUM CAST-INGS PLANT THERE -- BUT ALSO HAS UNENVIABLE LABOR RELATIONS RECORD AND HIGHEST MINIMUM WAGE IN NORTH AMERICA.

6. AT LOWER LEVEL, GOC IS ALSO BEGINNING TO JAWBONE AUTO COMPANIES ABOUT INVESTMENT, WITHOUT AS YET DEVELOPING EFFECTIVE NEW INDUCEMENTS. GOC'S SEEMINGLY STILLBORN DUTY REMISSION SCHEME FOR AUTO PARTS IS ITS MOST CONCRETE EFFORT THUS FAR. (OTTAWA 1229 AND PREVIOUS).

7. IN DISCUSSIONS WITH FEDERAL AND PROVINCIAL OFFICIALS, EMBASSY IS TAKING LINE THAT INVESTMENT INCENTIVES ARE ONE ELEMENT IN INVESTMENT DECISIONS AND CANADA NEEDS TO

TAKE THEM INTO ACCOUNT ALONG WITH OTHERS IN DEVELOPING  
GOALS FOR ATTRACTING NEW AUTO INVESTMENTS. WE ALSO SEEK,  
AS OPPORTUNITIES ARISE, TO SET RECORD STRAIGHT ON OPERATION  
OF AUTO PACT AND, ESPECIALLY, ON PARTS DEFICIT, BUT  
DISTORTIONS ARE WIDESPREAD AND PERSISTENT (SEE, FOR EXAMPLE  
OTTAWA 9156 OF 1977 AND 1422 OF 1978). DUEMLING

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**To:** STATE  
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